

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

11 GENENTECH, INC.,) Case No.: C 10-2037 LHK (PSG)
12 v. Plaintiff,) **ORDER GRANTING DEFENDANT'S**
13 THE TRUSTEES OF THE UNIVERSITY OF) **MOTION TO STRIKE AND**
14 PENNSYLVANIA,) **DENYING PLAINTIFF'S CROSS-**
15 Defendant.) **MOTION TO COMPEL**
16) **(Re: Docket Nos. 483, 486, 502)**
17 _____)

18 In this patent infringement action, Defendant and Counterclaim-Plaintiff The Trustees of
19 the University of Pennsylvania's ("the University") contends that well after the close of discovery,
20 Plaintiff Genentech, Inc. ("Genentech") improperly produced a set of emails related to a series of
21 unconsummated settlement discussions that took place between the parties in 2004 ("2004
22 communications"). The University moves to strike the "settlement emails" and the portions of
23 Genentech's expert damages report that reference those emails. The University offers two
24 independent grounds for striking the 2004 communications: (1) the emails are inadmissible to
25 prove Genentech's damages case under Fed. R. Evid. 408; and (2) the parties agreed not to produce
26 evidence relating to settlement discussions – or Genentech waived any objection to the
27 University's decision not to produce such documents – and the University will be prejudiced if
28 forced to address new discovery at this point in the case.

1 Genentech contends not only that its production was proper, having discovered the emails
 2 immediately prior to their production, but that the University improperly withheld the emails and
 3 related documents during the course of fact discovery. According to Genentech, the 2004
 4 communications represent important evidence concerning the University's valuation of the '752
 5 patent as expressed during licensing negotiations and before any threat of litigation had emerged,
 6 and therefore do not fall within the scope of Fed. R. Evid. 408. Genentech opposes the motion to
 7 strike and further asks the court to compel the University to produce the missing documents.¹

8 The parties appeared for hearing on March 6, 2012.

9 I. DISCUSSION

10 Absent an agreement to the contrary or an applicable exclusion pursuant to the rules of
 11 evidence, the documents in question would be discoverable under the broad definition of relevance
 12 set forth by the federal rules and the Federal Circuit's substantial pronouncements in recent years
 13 on reasonable royalty valuations.² The parties' obligation to have produced the documents, and
 14 Genentech's right to rely on them for its damages case, thus turns on whether either of these
 15 exceptions apply to the 2004 communications.

16 A. Fed. R. Evid. 408

17 Under Rule 408, a party cannot use "conduct or a statement made during compromise
 18 negotiations" about a disputed claim "either to prove or disprove the validity or amount of [the]
 19 claim." The University argues that the 2004 communications were made during "compromise
 20 negotiations" between the parties regarding Genentech's potential infringement of the '752 patent.
 21 Even if the emails were exchanged before the University formally alerted Genentech to its
 22 purported infringement of the '752 patent, the University contends that the 2004 communications

23
 24 ¹ Genentech filed its opposition as an opposition and cross-motion to compel. *See* Docket No. 486.
 25 As discussed below, Genentech's motion comes several months after the November 1, 2011 close
 26 of fact discovery in this case. Normally under the court's June 7, 2011 discovery order that sets
 forth the letter briefing procedure, no reply briefs are to be considered. *See* Docket No. 262 (Order
 Shortening Time). Because Genentech included a cross-motion in its response, in this instance the
 court will consider the University's reply letter brief.

27 ² *See, e.g., Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324-25 (Fed. Cir. 2009)
 28 (describing the "hypothetical negotiation" approach to approximate the royalty to which a willing
 licensor and willing licensee would have agreed at the time the infringement began).

1 fell within the scope of a confidentiality agreement between the parties that was drawn up several
2 years earlier.³ That agreement stated that discussions between Genentech and the University
3 involving Herceptin “shall be treated for all purposes as compromise and settlement negotiations
4 within the meaning of Rule 408 of the Federal Rules of Evidence and Section 1152 of the
5 California Evidence Code.”⁴

6 Genentech does not dispute that, in support of its effort to undercut the University’s
7 damages demand, it has referenced the amount quoted by the University in the 2004
8 communications as part of a licensing proposal for the ‘752 patent.⁵ Genentech’s Elsten Report
9 references the offer revealed in the 2004 email exchange as the amount that the University “appears
10 to have proposed” as a paid-up royalty to license the ‘752 patent, and Genentech’s response to that
11 proposal.⁶ In a footnote, Elsten states that “[w]hile this UPenn offer is revealing, if I were not to
12 consider it, my opinions would not change.”⁷ Yet in its opposition to the University’s motion,
13 Genentech argues that because there was no “disputed claim” regarding the ‘752 patent at the time
14 of the 2004 communications, the emails fall outside the scope of Fed. R. Evid. 408.⁸ In 2004,
15 Herceptin had not been approved for adjuvant therapy and therefore could not serve as the basis for
16 an alleged infringement claim.⁹ Genentech further argues that the University’s proffer of the earlier
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18 ³ See Docket No. 483, Ex. D (under seal). The agreement did not offer a particular time frame,
19 other than to reference the date of the first licensing discussion and those to be held “from time to
time thereafter.” *Id.*

20 ⁴ See *id.* The court has sought to refrain from revealing any material marked as highly confidential.

21 ⁵ See Docket No. 486 at 1 (Pl.’s Opp’n to Mot. To Strike).

22 ⁶ Docket No. 483-1 (Wells Decl.), Ex. C at 69 (Opening Expert Report and Disclosure of Cate M.
Elsten: 2/6/2012).

23 ⁷ *Id.*, Ex. C at 69 n. 390.

24 ⁸ See *Deere & Co. v. Int’l Harvester Co.*, 710 F.2d 1551, 1557 (Fed. Cir. 1983) (“Rule 408, on its
face, is limited to actual disputes over existing claims and, accordingly, cannot be applicable to an
offer, albeit one ultimately rejected, to license an, as yet, uncontested patent.”).

25 ⁹ Genentech points out that even the University’s damages expert opines that Genentech’s alleged
infringement began about two years later when the FDA approved Herceptin for adjuvant use. See
26 Docket No. 486 (Levine Decl.), Ex. 2 ¶ 38.

1 confidentiality agreement is unavailing because it is unexecuted¹⁰ and thus not binding, and was
 2 entered in relation to a different set of license negotiations between the parties several years before
 3 the 2004 communications began.

4 Insofar as Genentech's reference in the Elsten Report is for the purpose of either proving or
 5 disproving the validity or amount of the claim in dispute, it falls squarely within the scope of Rule
 6 408. It does not appear, however, that the emails produced by Genentech made up "compromise
 7 negotiations about the claim" in dispute, within Rule 408's meaning. As in *Deere & Co.*, there is
 8 no evidence that the 2004 licensing proposal related to a disputed claim, especially in light of
 9 Genentech's response at the time, which explained that Herceptin was not then in development in
 10 preventive indications.¹¹ Without more, the fact that the University reached out to Genentech in
 11 2004 regarding the '752 patent "covering the use of Herceptin to prevent breast cancer" is
 12 insufficient to qualify those discussions as "compromise negotiations."

13 Similarly, the confidentiality agreement originated several years before the 2004
 14 communications and arose in the context of licensing negotiations around a different University
 15 patent in relation certain antibody products, "including Herceptin."¹² There is no evidence that the
 16 parties intended for this single-paragraph, broadly-termed confidentiality agreement to apply to
 17 discussions initiated around separate intellectual property over five years later. On the record
 18 presented, the court concludes that the 2004 communications are not clearly "compromise
 19 negotiations" on a disputed claim within the meaning of Rule 408 or within the scope of the
 20 confidentiality agreement.

21

22¹⁰ The copy of the confidentiality agreement proffered by the University is signed only by
 23 Genentech.

24¹¹ Although the parties in *Deere & Co.* agreed that there was no infringement of one of the patents-
 25 in-issue at the time of the licensing negotiations in question, the court independently noted that "the
 26 past dealings between [the parties] were such that an eventual court battle involving the [] patent
 27 was an acknowledged possibility or even probability. Nevertheless, Rule 408, on its face, is limited
 to actual disputes over existing claims and, accordingly, cannot be applicable to an offer, albeit one
 ultimately rejected, to license an, as yet, uncontested patent." *Deere & Co.*, 710 F.2d at 1556-57.

28¹² See Docket No. 486, Ex. 9 (under seal).

1 **B. Agreement and Waiver**

2 During the course of this lawsuit, the parties engaged in extensive fact discovery and
 3 conferred regarding the production of materials related to their earlier license negotiations.
 4 Initially, both parties sought production of materials relating to license negotiations.¹³ Genentech
 5 ultimately served several requests for production that implicated licensing documents.¹⁴ Genentech
 6 argues that the University agreed to respond to these requests and never objected that the requested
 7 documents were settlement-privileged.¹⁵ Genentech also argues that it clearly conveyed its position
 8 in a September 20, 2011 letter to the University that it expected “documents reflecting license
 9 negotiations and communications … for all ‘752 Patent licenses,’ and was prepared to produce
 10 reciprocal material relating to its two licenses with the University.¹⁶ Finally, Genentech argues that
 11 any prejudice at this point is to Genentech, based on the relevance of the parties’ prior discussions
 12 relating to the ‘752 patent and of earlier valuations of the ‘752 patent. Genentech suggests that it
 13 would be willing to reach a “reasonable accommodation” and permit the University to serve
 14 supplemental expert damages reports that take into consideration the 2004 communications, after
 15 the University produces the missing material.

16 The University responds by pointing to its October 5, 2011 letter to Genentech in which it
 17 reiterated its earlier position that “it is overly burdensome to collect, review, log, and process all of
 18 the communications underlying negotiations relating to [the ‘752 Patent licenses],” as well as
 19 “documents relating to unconsummated licensing negotiations between the University and
 20 Genentech relating to the ‘752 patent.”¹⁷ The October 2011 letter also stated that “the parties

21 ¹³ See *id.*, Ex. 6 (email exchange wherein both parties agreed to some “reciprocal” license
 22 production) (under seal). The court understands this exchange to refer to executed licenses.

23 ¹⁴ Genentech’s RFP 39 asked for documents relating to “licensing negotiations, or offers or
 24 attempts to license the ‘752 Patent.” RFP 115 requested documents concerning “UPenn’s valuation
 25 of the ‘752 patent; and RFP 119 requested documents concerning “any attempts or efforts to
 26 license the ‘752 Patent, including … correspondence with actual or potential licensees.” See *id.*,
 27 Exs. 3, 1 (Eighth and First Set of Requests for Production).

28 ¹⁵ See *id.*, Exs. 4, 5 (The University’s response to Genentech’s RFPs 39, 115, and 119).

29 ¹⁶ See *id.*, Ex. 6 (Email from counsel for Genentech to the University: 9/20/2011).

30 ¹⁷ Docket No. 483. Ex. G (Letter from the University to Genentech: 10/6/2011).

1 previously agreed that such materials would be ‘treated for all purposes as compromise and
2 settlement negotiations within the meaning of Rule 408’” such that the production of ultimately
3 inadmissible material would create “an unnecessary burden.”¹⁸ The University contends – and
4 Genentech does not dispute – that although some documents may have been produced earlier
5 relating to negotiations between the parties, no further production took place. Also, Genentech
6 never questioned the University’s position regarding the non-production of unconsummated
7 licensing negotiation documents between the parties relating to the ‘752 patent.¹⁹

8 The University’s unilateral statement that the production of documents relating to the
9 parties’ unconsummated license negotiations was burdensome and unnecessary based on
10 inadmissibility is insufficient to demonstrate an express agreement between the parties to refrain
11 from completing this production. Yet it is untenable that Genentech waited months to respond to
12 the University’s letter or dispute its position, or to further pursue the production of documents
13 referenced in Genentech’s September letter relating to ‘752 patent negotiations. Not until January
14 17, 2012, when Genentech sent a letter to the University stating that it had discovered responsive
15 documents “while performing a search for an unrelated litigation matter” and that the documents
16 “suggest that Penn may not fully complied [sic] with its discovery obligations,” did Genentech
17 pursue production of documents relating to the 2004 negotiations.²⁰ Genentech may be correct that
18 a party does not waive its right to compel simply because it was unaware until after the close of
19 fact discovery that its adversary was improperly withholding relevant documents. But in this case,
20 Genentech itself had access to the same documents, in addition to related documents from January
21

22 ¹⁸ *Id.*

23 ¹⁹ Genentech points to several documents produced by the University that relate to the parties’
24 licensing negotiations. *See, e.g.*, Docket No. 486, Ex. 7 (Jan. 2005 “Partnership Proposal”); Ex. 8
25 (Letter regarding January 2005 negotiation: 1/27/2005). In its reply, the University responds that
26 these documents were produced in July 2011, several months before the University’s October 2011
letter explaining that it would not produce unconsummated negotiation documents. The University
also notes that consistent with its position, it has not relied upon those documents in expert reports
on damages and willfulness. Although Genentech disputes this representation, that dispute is not
currently before the court.

27 ²⁰ *See* Docket No. 483. Ex. A (Letter from the Genentech to the University: 1/17/2012).

1 2005, as well as the written exchanges between counsel regarding the production of these very
2 same documents. Particularly when the documents were found on the computer of Genentech's
3 General Counsel, an individual whose direct responsibility in this case is so substantial that he is
4 entitled under the Protective Order to review sensitive University documents, and no declaration or
5 other evidence regarding the sudden discovery of the documents is supplied, the court is not
6 persuaded that Genentech was sufficiently diligent.

7 In sum, Genentech has not shown good cause, pursuant to Civ. L.R. 37-3, for its extensive
8 delay in filing its motion to compel. Similarly, in light of Genentech's failure to follow up on the
9 parties' communications regarding negotiation documents and its access to the documents itself,
10 the few references in Genentech's Elsten report to the 2004 negotiations shall be stricken.²¹

11 II. CONCLUSION

12 For the reasons set forth above, the University's motion to strike is hereby GRANTED and
13 Genentech's motion to compel is DENIED.

14 Dated: 5/8/2012

15 

16 PAUL S. GREWAL
17 United States Magistrate Judge

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²¹ Because the report claims to arrive at the same conclusion without the existence of the 2004
communications, Genentech suffers little prejudice by not being able to rely on it.